

Message Text

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PAGE 01 ABU DH 01196 031144Z

43

ACTION EB-11

INFO OCT-01 NEA-14 ISO-00 FEA-02 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-03 COME-00 DODE-00 FPC-01 H-03 INR-11

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 PA-04 PRS-01

USIA-15 DRC-01 /168 W

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R 031120Z SEP 74

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 2002

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY MANAMA

AMEMBASSY TEHRAN

C O N F I D E N T I A L ABU DHABI 1196

KUWAIT ALSO PASS DOHA AND MUSCAT

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJECT: ADM DHABI SIGNS NEW PARTICIPATION AGREEMENT WITH ONSHORE
CONCESSIONAIRE

1. SUMMARY: ABU DHABI GOVERNMENT AND ONSHORE CONCESSIONAIRE
ABU DHABI PETROLEUM CO. (ADPC) AGREED SEPT 3 TO NEW PARTICI-
PATION AGREEMENT PROVIDING FOR 60/40 SHARING IN FAVOR ADG
AND WITH ADPC AGREEING BUY BACK 300,000 BPD AT 94.8
PERCENT POSTED PRICE EFFECTIVE JULY 1. QUANTITIES TO BE
BOUGHT BACK AND IN THEORY PRICES FOR LAST QUARTER CY 74 AND
PERIOD BEYOND REMAIN TO BE NEGOTIATED. INDEPENDENTS BEING
PRIVATELY OFFERED PRICE 93 PERCENT OF POSTED. KEY POINT NOT
BEING MENTIONED PUBLICLY TO DATE IS THAT ADG THREATENING CUT
PRODUCTION
IF ADPC NOT PREPARED BUY ADDITIONAL QUANTITIES AT
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PAGE 02 ABU DH 01196 031144Z

94.8 PRICE. END SUMMARY.

2. ABU DHABI GOVERNMENT REPRESENTED BY MINISTER PETROLEUM MANA BIN SAID AL-OTAIBA SIGNED AGREEMENT IN EARLY MORNING HOURS SEPT. 3 WITH ADPC PROVIDING FOR 60/40 PARTICIPATION BETWEEN GOVERNMENT AND COMPANY IN ONSHORE CONCESSIONS. AGREEMENT RETROACTIVE TO FIRST OF YEAR. RE BUY-BACK BY ADPC OF GOVERNMENT CRUDE, FOR FIRST SIX MONTHS OF YEAR COMPANY AGREED TO RETROACTIVE BUY-BACK AT 94 PERCENT OF POSTED PRICE. FOR THIRD QUARTER ADG INSISTED ON 94.8 PERCENT (\$11.90 FOR MURBAN CRUDE) WITH ADPC THEN RESTRICTING ITS PURCHASES TO 300,000 BPD (OUT OF TOTAL 660,000), WITH EXCESS ALREADY TAKEN LAST TWO MONTHS TO BE PAID BACK IN CRUDE OVER REMAINDER OF YEAR. PORTION NOT BEING PURCHASED BY ADPC TO BE MARKETING BY NATIONAL COMPANY ADNOC BUT NO PUBLIC MENTION MADE OF PRICE TO BE DEMANDED. BEYOND THIRD QUARTER QUANTITIES TO BE PURCHASED LEFT FOR NEGOTIATIONS WITH INDIVIDUAL COMPANIES MAKING UP ADPC, WITH PRICE PRESUMABLY REMAINING AT 94.8. AGREEMENT BEING BILLED PUBLICLY BY OTAIBA AS "TEMPORARY" WITH PERMANENT TERMS TO BE AGREED LATER ON BASIS OPEC DECISIONS RE OVERALL NATURE RELATIONSHIPS BETWEEN EXPORTING COUNTRIES AND COMPANIES. IN MEANTIME, HOWEVER, ADPC AGREEMENT TO FORM BASIS FOR SIMILAR RENEGOTIATIONS WITH OFFSHORE CONCESSIONAIRE, ABU DHABI MARINE AREAS. (ADMA).

3. KEY POINT NOT BEING MENTIONED PUBLICLY IS THAT MAIN STICKING POINT IN NEGOTIATIONS WAS OTAIBA'S ATTEMPT TO GET ADPC TO AGREE TO BUY BACK QUANTITIES ABOVE AND BEYOND 300,000 BPD ALL AT 94.8 PRICE. THIS COMPANY ULTIMATELY REFUSED TO DO. DURING COURTESY CALL ON OTAIBA SEPT. 1 (NEGOTIATIONS THEN UNDERWAY), MINISTER TOLD ME THAT HE WAS VERY CONCERNED THAT ADPC'S ATTITUDE WOULD FORCE ADG TO CUT PRODUCTION. HE SAID ADG WAS PREPARED TO OFFER NEW PRICES TO COMPANIES HAVING EXISTING CONTRACTS WITH ADNOC (E.G. JAPAN LINES) AGREEING TO SELL TO THEM AT 93 PERCENT INSTEAD OF LEVELS SUCH AS 100 AND 98 PERCENT PREVIOUSLY CONTRACTED FOR. IN THIS WAY ADG HOPED SALES TO THESE BUYERS WOULD MOVE UP TO CONTRACTED LEVEL OF 120,000 BPD FROM CURRENT RATE OF DRAW DOWN OF 60,000 BPD. BUT THIS WOULD STILL LEAVE ADNOC WITH 240,000 BPD TO DISPOSE OF FOR MONTH SEPTEMBER, CONFIDENTIAL

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PAGE 03 ABU DH 01196 031144Z

TO WHICH WOULD HAVE TO BE ADDED QUANTITIES BEING PAID BACK BY ADPC FROM PREVIOUS TWO MONTHS. ALTHOUGH OTAIBA STATED THAT ADNOC PREPARED TO SELL TO OTHER INDEPENDENTS AS WELL AT 93 PERCENT RATE, HE WAS FRANKLY SKEPTICAL THAT DNOC COULD DISPENSE WITH THESE QUANTITIES. (IN THIS CONNECTION OTAIBA ACKNOWLEDGED THAT ADNOC SPRING AUCTION HAD NOT BEEN SUCCESSFUL). IN THIS EVENTUALITY, UNLESS ADPC CHANGED POSITION AND AGREED MAKE FURTHER PURCHASES AT 94.8 RATE ADG WOULD HAVE

NO CHOICE BUT TO CUT PRODUCTION. OTAIBA MADE POINT OF STATING THAT THIS WAS NOT ADG DESIRE. ABU DHABI WAS NOT RADICAL STATE SUCH AS SOME PRODUCING COUNTRIES AND APPRECIATED ITS RESPONSIBILITY TO PRODUCE AT LEVEL CONSISTENT WITH WORLD'S NEEDS. RATHER THAN CUT PRODUCTION OTAIBA SAID THAT ADG FELT ITSELF IN POSITION--WITH ITS RESOURCES--SIMILAR TO SAUDI ARABIA IN WHICH PRODUCTION SHOULD IN FACT BE RISING. BUT FACED WITH ADPC POSITION ADG MIGHT HAVE NO CHOICE. HE THEREFORE APPEALED TO USG TO MAKE COMPANY APPRECIATE POSITION AND NOT FORCE SUCH COURSE ON ADG.

4. IN RESPONSE MY QUERY AS TO WHY ADG DID NOT SIMPLY OFFER ADPC ADDITIONAL CRUDE AT LOWER PRICE--E.G. AT 93 PERCENT FIGURE BEING OFFERED TO INDEPENDENTS--HE SAID THAT GOVERNMENT COULD NOT HAVE TWO PRICE SYSTEM. 94.8 WAS PRICE FOR PRODUCERS AND ALL CRUDE SOLD TO THEM HAD TO BE AT THAT LEVEL. AS FOR RATIONALE BEHIND OFFERING LOWER PRICE TO INDEPENDENTS, OTAIBA CITED TWO CONSIDERATIONS: (A) TO MAKE SURE THAT INDEPENDENTS NOT DRIVEN OUT OF MARKET; AND (B) BECAUSE OVERALL PRICE TO OPERATING COMPANIES WORKED OUT TO 80 PERCENT OF POSTED SO THEY ALREADY ENJOYED 13 POINT SPREAD ADVANTAGE. FURTHER DISCUSSION OF ADVISABILITY MAINTAINING THIS HIGH LEVEL TO OPERATORS, INCLUDING REFERENCES TO WORLD INFLATION AND RELATION OF CRUDE PRICES THERETO, LED OTAIBA TO FALL BACK ON DIFFICULTY WHICH ADG HAD TO FACE PREVIOUS KUWAIT AGREEMENT--ABU DHABI COULD NOT IN PRACTICE ASK FOR LESS. DISCUSSION CONCLUDED WITH MY EXPRESSION OF HOPE THAT ADG WOULD NOT IN FACT CUT PRODUCTION--THAT IF NECESSARY, CONSISTENT WITH LEVEL WORLD DEMAND, PRICE ADJUSTMENTS WOULD BE MADE INSTEAD.

5. COMMENT: TERMS OF AGREEMENT WITH ADPC HARDLY COME AS SURPRISE. WHETHER ADG WILL IN FACT CARRY OUT THREAT CUT
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PAGE 04 ABU DH 01196 031144Z

PRODUCTION REMAINS BE SEEN. IT IS PERHAPS ENCOURAGING THAT SO FAR THIS THREAT NOT MADE PUBLICLY. INSTEAD OTAIBA FLEW TO LONDON EARLY TODAY TO BRIEF SHAIKH ZAYID ON RESULTS OF NEGOTIATIONS WITH FURTHER POLICY ANNOUNCEMENTS POSSIBLY TO FOLLOW THEREAFTER. IT WILL ALSO BE INTERESTING TO SEE WHAT ATTITUDE OF ADMC PARTNERS WILL BE TOWARDS BUY-BACK PROPOSAL--I.E. HOW MUCH OF ADG SHARE OF 500,000 PLUS BPD OF OFF SHORE PRODUCTION THEY WILL AGREE TO BUY. WE WILL ATTEMPT PROBE THIS POINT HERE, BUT WITH NEGOTIATIONS TO TAKE PLACE IN LONDON DOUBT WE WILL GET MUCH SATISFACTION.
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